

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **First Community Bank, Harbor Springs, Michigan** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **February 10, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S RATING: This institution is rated **Satisfactory**.

The bank encourages economic development and revitalization consistent with its size, financial capability, location and economic conditions. The bank has an adequate loan-to-deposit ratio and has demonstrated sufficient performance concerning the percentage of loans originated in its assessment area. Evaluation of the bank's distribution of loans exhibits a satisfactory level of lending to borrowers of different income levels and businesses of different sizes. No CRA-related complaints were received by the bank since the previous examination.

The following table indicates the performance level of **First Community Bank, Harbor Springs, Michigan** with respect to each of the five performance criteria.

| SMALL INSTITUTION ASSESSMENT CRITERIA | FIRST COMMUNITY BANK PERFORMANCE LEVELS | | |
|--|--|---|---|
| | Exceeds Standards for Satisfactory Performance | Meets Standards for Satisfactory Performance | Does Not Meet Standards for Satisfactory Performance |
| Loan-to-Deposit Ratio | | X | |
| Lending in Assessment Area | | X | |
| Lending to Borrowers of Different Incomes and to Businesses of Different Sizes | | X | |
| Geographic Distribution of Loans | There are no low- or moderate-income census tracts or BNAs in the assessment area. | | |
| Response to Complaints | No CRA-related complaints were received since the previous examination | | |

DESCRIPTION OF INSTITUTION

First Community Bank, with total assets of \$67.1 million as of December 31, 1996, is a subsidiary of Harbor Springs Financial Corporation. The bank operates five offices; the main office in Harbor Springs, a branch office in Petoskey, two drive-up facilities in Harbor Springs and one drive-up facility in Petoskey. Banking and loan services are provided from the main office in Harbor Springs and the full-service branch office in Petoskey. The bank has three automated teller machines (ATMs), one is located at the main office in Harbor Springs, one at the Harbor Springs drive-up facility and one at the Petoskey branch office.

The bank is a retail community bank offering traditional financial services. Consumer loan products consist of home equity lines of credit, automobile, secured and unsecured personal loans, and student loans. The commercial loan products include operating lines of credit, real estate, capital purchases, equipment and inventory loans. Mortgage loans include conventional, construction and unimproved real estate. The bank also makes loans to small businesses and farmers. Based upon information contained in the September 30, 1996 Uniform Bank Performance Report (UBPR), approximately 56.50% of the bank's loan portfolio are real estate loans, with 50.60% of the real estate loans secured by one-to-four family residences. Loans to individuals, commercial loans and all other categories comprise 8.63%, 33.13% and 1.74%, respectively of the loan portfolio.

First Community Bank's primary competitors include branch offices of NBD Bank in Harbor Springs and Petoskey, and Old Kent Bank of Petoskey in Petoskey.

DESCRIPTION OF BANK'S ASSESSMENT AREA

First Community Bank has defined its assessment area as Block Numbering Areas (BNAs) 9703, 9704 and 9706 through 9708 in Emmett County. The assessment area encompasses the cities and towns of Harbor Springs, Petoskey, West Traverse, Little Traverse, Friendship, Bear Creek, Resort Township, and portions of Pleasant View and Cross Village.

According to 1990 U. S. Census Bureau data, the population in the bank's assessment area is 16,020, with minorities comprising 558 or 3.5% of the population. American Indians, the largest minority group, represent 1.9% of the total population within the bank's assessment area. Blacks represent 101 or 0.6%, Asians 83 or 0.5%, and individuals of Hispanic descent 67 or 0.4% of the total population.

The adjusted median family income for the assessment area is \$27,863 and the statewide nonmetropolitan median family income is \$27,894. The total number of families in the assessment area is 4,245, of which 458 families or 10.8% are low-income; 639 or 15.1% are moderate-income; 1,082 or 25.4% are middle-income; and 2,066 or 48.7% are upper-income families. There are no low-income or minority BNAs within the assessment area.

Emmett County is primarily rural and the assessment area is considered a resort and tourist area. The assessment area has a total of 9,534 housing units, of which 4,373 or 45.9% are owner-occupied and 1,800 or 18.9% are rental units. Approximately 35% of the housing units are vacant or for seasonal recreation use only. Of the total number of housing units, 8,030 or 84.2% are single-family dwellings, 836 or 8.8% are multi-family dwellings and 520 or 5.5% are mobile homes. Owner-occupied units totaled 3,489 or 46.2% in moderate-income areas and 884 or 44.6% in upper-income areas. The median housing value is \$73,069 and the median housing age is 33.

The following chart illustrates the major employers in the bank's assessment area.

| EMPLOYER | NUMBER OF EMPLOYEES | TYPE OF BUSINESS OR INDUSTRY |
|---|---------------------|-------------------------------------|
| Control Engineering Co, Harbor Springs | 269 | Conveyors and Equipment |
| Petoskey Manufacturing Co., Petoskey | 249 | Foundries, Nonferrous, Not Aluminum |
| Glass Alternatives Corp, Petoskey | 158 | Plastic Products |
| McLaughlin Co., Petoskey | 140 | Bolts, Nuts, Screws, Rivets, Washer |
| Manthei, Inc, Petoskey | 130 | Hardwood Veneer and Plywood |
| Northern Die Cast Inc, Harbor Springs | 120 | Foundries, Nonferrous, Not Aluminum |
| Michigan Maple Block Co., Petoskey | 85 | Fixtures, Wood, Store, Office |
| Town & Country Cedar Homes Inc., Petoskey | 75 | Prefabricated Wood Buildings |
| Continental Structural Plastic, Petoskey | 60 | Printing, Commercial Lithographic |

Unemployment information obtained from the Michigan Employment Security Commission for the year 1996, indicated that the average unemployment rate was 7.8% for Harbor Springs and 6.6% for Petoskey, compared to 9.3% for Emmett County, 4.7% for the State of Michigan and 5.4% for the national.

Community representatives stated that the community is known as a year-round resort community with summer being the peak season for tourism. They also stated that housing and land are expensive and upper-income residents throughout the county have purchased and built large homes in the area. First Community Bank was mentioned as an active lender and leader in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act. No

practices were noted that would discourage applications for the types of credit products offered by the bank.

Loan-to-Deposit Ratio

The bank's December 31, 1996 Consolidated Report of Condition revealed a net loan-to-deposit ratio of 70.08%.

The distribution as of December 31, 1996, by loan type, was as follows:

| LOAN TYPE | DOLLAR AMOUNT OUTSTANDING (\$000's) | PERCENT OF TOTAL LOANS |
|------------------------------------|--|------------------------|
| REAL ESTATE | | |
| Construction | 607 | 1.41 |
| Residential (1-4) | 18,150* | 42.38 |
| Commercial | 2,814 | 6.57 |
| Agricultural | 0 | 0 |
| Multi-family | 48 | 0.11 |
| CONSUMER | | |
| Open-end Credit | 0 | 0 |
| All Other | 5,009 | 11.70 |
| COMMERCIAL AND INDUSTRIAL | 15,147 | 35.37 |
| AGRICULTURAL | 0 | 0 |
| STATE AND POLITICAL OBLIGATIONS | 0 | 0 |
| OTHER | 1,054 | 2.46 |
| TOTAL LOANS | 42,829 | 100.00 |

*of this amount, \$5,113 is open-end lines of credit

A comparison of the bank's loan distribution as of June 30, 1995 (contained in the previous report of examination) to the loan distribution as of December 31, 1996 revealed that the loan-to-deposit ratio declined from 70.73% to 70.08%; however, total loans increased by \$7,521,000 or 21.30% since the previous examination. There was a 21.85% increase in the bank's residential (1-4 family) real estate loans (from \$14,895,000 to \$18,150,000) and the bank experienced a significant increase in commercial real estate (from \$405,000 to \$2,814,000). Other loan categories in the bank's loan portfolio revealed no significant increases or decreases.

Analysis of the bank's Consolidated Reports of Condition, from September 30, 1995 through

December 31, 1996, revealed an average loan-to-deposit ratio of 70.21%. A review of the September 30, 1996 Uniform Bank Performance Report (UBPR) revealed that First Community Bank's loan-to-deposit ratio of 70.64% slightly exceeded its peer group's ratio of 66.78%. According to the September 30, 1996 UBPR, the bank's performance compared to peer is illustrated in the following chart.

| LOAN TYPE | BANK AVERAGE LOAN MIX (%) | PEER AVERAGE LOAN MIX (%) |
|---|---------------------------|---------------------------|
| REAL ESTATE LOANS | | |
| Construction/Development | 1.01 | 1.70 |
| 1 - 4 Family Residential | 50.60 | 30.75 |
| Home Equity | 10.50 | 0.23 |
| Other Real Estate | 4.89 | 21.18 |
| Farmland | 0.00 | 5.65 |
| Multi-family | 0.09 | 0.45 |
| Commercial | 4.80 | 11.96 |
| TOTAL REAL ESTATE LOANS | 56.50 | 57.14 |
| LOANS TO INDIVIDUALS | 8.63 | 15.28 |
| CREDIT CARD LOANS | 0.00 | 0.31 |
| COMMERCIAL & INDUSTRIAL LOANS | 33.13 | 13.47 |
| AGRICULTURAL LOANS | 0.00 | 6.75 |
| MUNICIPAL LOANS | 0.08 | 0.36 |
| OTHER LOANS* | 1.66 | 0.16 |
| *Excludes Financial Institution Loans, Acceptances of Other Banks, Foreign Office Loans and Leases, and Lease Financing Receivables | | |

This ratio is considered reasonable and meets the standards for satisfactory performance given the bank's size, financial condition and assessment area credit needs.

Lending in Assessment Area

A sample of loans was reviewed regarding the level of lending within the bank's assessment area. Analysis of the examination loan sample revealed the following level of lending within the assessment area.

| LOAN TYPE | TOTAL SAMPLED | WITHIN THE ASSESSMENT AREA | PERCENT OF TOTAL |
|--------------------|---------------|----------------------------|------------------|
| Single Payment | 10 | 6 | 60% |
| Direct Installment | 20 | 10 | 50% |
| Home Equity | 10 | 9 | 90% |
| | | | |

| LOAN TYPE | TOTAL SAMPLED | WITHIN THE ASSESSMENT AREA | PERCENT OF TOTAL |
|-------------|---------------|----------------------------|------------------|
| Commercial | 24 | 20 | 83% |
| Real Estate | 10 | 6 | 60% |
| Total Loans | 74 | 51 | 69% |

As the preceding chart illustrates, 69% of the loans sampled were made within the assessment area. The level of lending within the assessment area is considered reasonable and meets the standards for satisfactory performance.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Review of the examination loan sample, of which 42 of 50 consumer loans (84%) had borrower income information available, revealed the following distribution of loans among borrowers of different income levels:

| LOAN TYPE | LOW-INCOME BORROWERS \$000's/Number | MODERATE-INCOME BORROWERS \$000's/Number | MIDDLE-INCOME BORROWERS \$000's/Number | UPPER-INCOME BORROWERS \$000's/Number |
|--------------------|--|---|---|--|
| Direct Installment | \$25,934/3 | \$26,618/5 | \$7,315/2 | \$41,431/6 |
| Single-Payment | \$0/0 | \$5,075/1 | \$7,675/2 | \$38,361/4 |
| Real Estate | \$0/0 | \$135,655/3 | \$0/0 | \$631,950/7 |
| Home Equity | \$0/0 | \$0/0 | \$0/0 | \$378,947/9 |
| Total Originations | \$25,934/3 | \$167,348/9 | \$14,990/4 | \$1,090,689/26 |

The preceding chart illustrates that 12 of 42 (28.57%) of the consumer loans sampled (with income information available) were made to low- or moderate-income borrowers. Approximately, 84% of the loans, by dollar volume, and 62%, by number, were to upper-income borrowers.

Lending to Small Businesses

A review of a sample of 24 commercial loans revealed that loan amounts ranged from \$4,070 to \$200,000, indicating the bank's willingness to make business purpose loans in small dollar amounts. In addition, a review of the bank's 1995 and 1996 Consolidated Reports of Condition (as of June 30) revealed that all or substantially all of the 580 loans for both years were in amounts of \$100,000 or less.

The following chart summarizes the bank's participation in the Small Business Administration (SBA) Program:

| PROGRAM | OUTSTANDING | | SINCE PREVIOUS EXAMINATION | |
|---------|-------------|---------------|----------------------------|-----------|
| | NUMBER | DOLLAR AMOUNT | NUMBER | AMOUNT |
| SBA | 3 | \$623,000 | 3 | \$623,000 |

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels, and businesses of different sizes, indicating that the bank's performance meets the standards for satisfactory performance.

Geographic Distribution of Loans

There are no designated low- or moderate-income census tracts or BNAs within the bank's assessment area; therefore, this criterion was not evaluated.

Response to Substantiated Complaints

No complaints were received by the institution regarding its CRA performance since the previous examination.